

Message Text

SECRET

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ACTION SS-30

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O 042100Z APR 74

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC IMMEDIATE 4416

INFO AMEMBASSY TUNIS IMMEDIATE

S E C R E T SECTION 1 OF 2 KINGSTON 1220

EXDIS

PASS OPIC

TUNIS FOR AMBASSADOR GERARD

E.O. 11652: GDS

TAGS: EFIN, EMIN, US, JA

SUBJECT: BAUXITE NEGOTIATIONS SITREP #25: THE BELL FOR

ROUND THREE

1. CHARGE MET FOR NEARLY TWO HOURS WITH MEYER MATALON AT MATALON'S REQUEST ON TUESDAY AFTERNOON, APRIL 2. MATALON HAD BEEN OUT OF THE COUNTRY FOR OVER A WEEK RETURNING TO JAMAICA ON APRIL 1. HENCE HE HAD NOT ATTENDED THE PLENARY SESSION HELD FRIDAY MARCH 30 NOR HAD HE SEEN THE INDUSTRY PAPER PREVIOUSLY, THOUGH HE HAD RECEIVED A SUMMARY OF IT IN LONDON BY CABLE. MATALON'S ABSENCE FROM THE COUNTRY WAS CAUSED PARTLY BY URGENT PERSONAL BUSINESS. HOWEVER HE APPARENTLY TOOK ADVANTAGE OF HIS PRESENCE IN LONDON TO GATHER FINANCIAL AND TECHNICAL DATA ON THE ALUMINUM INDUSTRY WORLD-WIDE, AND ALSO TO TEST THE WATER IN THE CITY OF LONDON SHOULD THE GOJ REQUIRE LARGE-SCALE FINANCIAL BACKING TO PUT INTO EFFECT SOME OF ITS PLANS WITH RESPECT TO THE BAUXITE INDUSTRY.

2. MATALON WAS IN A SWASHBUCKLING MOOD, THOUGH WE ASSUME HIS BLUSTER WAS MOSTLY FOR EFFECT SINCE HE KNOWS THE SUBSTANCE OF CONVERSATIONS WITH CHARGE IS REPORTED

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TO THE DEPARTMENT AND HE PROBABLY SUPPOSES THEIR DRIFT

REACHES THE INDUSTRY EVENTUALLY. WHILE SOME OF HIS INITIAL POSITIONS SEEM DESIGNED MAINLY FOR EFFECT HE CALMED DOWN IN THE COURSE OF THE INTERVIEW AND DURING ITS SECOND HALF HE SEEMED TO BE ARGUING POINTS ON THEIR MERITS RATHER THAN THEIR EFFECT.

3. MATALON EXPRESSED BITTERNESS AT THE DECISION OF THE COST OF LIVING COUNCIL IN THE UNITED STATES PERMITTING PRICE INCREASES IN ALUMINUM PRIMARY INGOT BEING SPRUNG ON THE JAMAICAN GOVERNMENT WITHOUT WARNING THE DAY BEFORE IT WAS TO MEET WITH INDUSTRY REPRESENTATIVES TO DISCUSS THE INDUSTRY'S PAPER. HE ASSUMED THAT THE INDUSTRY HAD PRIOR KNOWLEDGE OF THE DECISION AND ITS PROBABLE TIMING. HE WAS PARTICULARLY ACID OVER THE FACT THAT THE FIRST JUMP WOULD TAKE THE PRICE FROM 29 TO 31 1/2 CENTS PER POUND OF PRIMARY INGOT, BECAUSE HE HAD CALCULATED THAT 2 1/2 CENTS WAS EXACTLY WHAT THE INDUSTRY NEEDED TO CATCH UP WITH COSTS AND PUT THEMSELVES BACK IN THE BLACK. HE SAID HE RESENTED THE INDUSTRY TAKING CARE OF ITSELF FIRST BEFORE WORRYING ABOUT JAMAICA'S REQUIREMENTS PARTICULARLY SINCE 2 CENTS A POUND INCREASE IN THE PRICE OF PRIMARY INGOT WOULD, IF APPLIED TOTALLY TO JAMAICA'S REVENUE REQUIREMENTS, MORE THAN TAKE PLACE OF THE GOJ DEMAND FOR \$12.50 PER LONG TON OF BAUXITE. CHARGE POINTED OUT THAT YOU COULD JUST AS WELL SAY THAT INDUSTRY HAD DECIDED TO LOOK AFTER JAMAICA IN THE FIRST PRICE JUMP AND LEAVE ITSELF IN THE RED, BUT THIS DID NOT MAKE MUCH OF AN IMPRESSION.

4. MATALON WENT ON TO SAY THAT, UNDER THE CIRCUMSTANCES, THE INDUSTRY'S OFFER CONTAINED IN ITS PAPER PRESENTED MARCH 26 WAS UNRESPONSIVE AND INADEQUATE. IN THE FIRST PLACE THE INDUSTRY'S FORMULA ONLY INDICATED THAT REVENUES TO JAMAICA MIGHT GO AS HIGH AS TWO TIMES OR A LITTLE MORE THE PRESENT TAKE AT A PRICE OF 36 CENTS PER POUND OF PRIMARY INGOT, BUT THERE WAS NO ASSURANCE THAT THE PRICE WOULD IN FACT GO TO 36 CENTS IN THE FORESEEABLE FUTURE AND THERE WERE REASONS WHY THE INDUSTRY ITSELF MIGHT WANT TO MAKE THE PRICE WELL BELOW 36 CENTS. SECONDLY, EVEN IF THE PRICE WOULD GO TO 36 CENTS, AN INCREASE OF REVENUES BY A FACTOR OF TWO WAS SIMPLY NOT RESPONSIVE

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COMPARED TO A REQUESTED INCREASE BY A FACTOR OF TEN. THIRDLY, AND MOST IMPORTANT, THE INDUSTRY HAD MADE AN OFFER SAYING IT WAS ALL THEY COULD AFFORD BUT WITHOUT SUPPORTING THIS ARGUMENT WITH ANY EVIDENCE DERIVED FROM THE REALITIES AND ECONOMICS OF THE INDUSTRY. MOREOVER THE INDUSTRY HAD EXPLICITLY FAILED TO RESPOND TO THE POINTS THE GOVERNMENT HAD MADE ABOUT THE HIGH PRICES OF PRIMARY INGOT IN INTERNATIONAL MARKETS AND THE

POSSIBILITY THAT THE PRICE HAD BEEN KEPT ARTIFICIALLY LOW IN THE UNITED STATES TO SUIT THE INDUSTRY'S OWN PURPOSES. HIS POINT SEEMED TO BE THAT THE LOW U.S. PRICE WOULD BE USED AS A REFERENCE POINT FOR CALCULATING THE REVENUES DUE TO THE BAUXITE PRODUCERS AND THEN THE INDUSTRY COULD DEAL IN INTERNATIONAL MARKETS FOR THE FINISHED PRODUCT AT SUBSTANTIALLY HIGHER PRICES. "THEY ARE QUIDS INPLAYING THAT LITTLE GAME" MATALON SAID.

5. FOR ALL THESE REASONS, MATALON REPORTED THAT THE GOVERNMENT WAS WRITING A POLITE BUT FIRM LETTER TO THE INDUSTRY REJECTING THEIR OFFER AND INVITING RENEWED DISCUSSION. THE LETTER WOULD SCHEDULE A MEETING FOR FRIDAY APRIL 5. HOWEVER MATALON LATER INFORMED CHARGE THAT THE MEETING HAD ACTUALLY BEEN SCHEDULED FOR SATURDAY APRIL 6 IN ORDER TO ACCOMMODATE THE INDUSTRY.

6. IN THE COURSE OF THE ABOVE DISCUSSION CHARGE NOTED THAT THERE HAD BEEN SOME THOUGHT GIVEN IN THE INDUSTRY TO A MECHANISM BY WHICH A TECHNICALLY QUALIFIED AND MORE OR LESS IMPARTIAL COMMISSION WOULD MAKE A STUDY TO DETERMINE WHAT MIGHT BE REGARDED AS A "FAIR PRICE OR TRUE ECONOMIC VALUE" FOR A POUND OF PRIMARY INGOT IN TODAY'S WORLD. SEVERAL VERSIONS OF THIS IDEA HAVE BEEN BRUITED ABOUT IN INDUSTRY CIRCLES THE MOST POPULAR BEING A PANEL OF ECONOMISTS AND TECHNICAL EXPERTS SOME OF WHOM WOULD BE SELECTED BY THE INDUSTRY SOME BY THE GOVERNMENT OF JAMAICA, AND SOME BY A MORE OR LESS NEUTRAL MECHANISM. MATALON SAID THAT THIS WAS AN INTERESTING IDEA AND MIGHT PROVE A USEFUL DEVICE BUT HE DIDN'T REALLY SEE THAT ELABORATE MECHANISM LIKE THIS WAS NECESSARY TO ESTABLISH THE FACT WHICH HE ESTABLISHED EASILY DURING HIS RECENT VISIT TO LONDON.

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7. CHARGE THEN RAISED THE APPARENT CONTRADICTIONS IN THE GOVERNMENT'S PAPER WITH RESPECT TO THE SPREAD IN THE TAX BURDEN BETWEEN RAW BAUXITE AND ALUMINA CHARGE POINTED OUT THAT, IF PUT INTO EFFECT, THE TAX STRUCTURE PROPOSED BY THE GOVERNMENT WOULD CONSTITUTE A NET DIS-INCENTIVE TO FURTHER INVESTMENT AT ALUMINA REFINING IN JAMAICA RATHER THAN THE TAX INCENTIVE ABOUT WHICH THE PRIME MINISTER HAD SPOKEN. MATALON WAS A LITTLE SHAMEFACED IN ADMITTING THAT THIS WAS SO AND QUICK TO CLAIM THAT HE HAD NOTHING TO DO WITH DRAFTING THAT PORTION OF THE PAPER. HE DEFENDED THE POSITION BY SAYING THAT THE GOVERNMENT WAS REALLY
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ACTION SS-30

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TO SECSTATE WASHDC IMMEDIATE 4417
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S E C R E T SECTION 2 OF 2 KINGSTON 1220/2

EXDIS

8. THE SECOND HALF OF THE DISCUSSION CENTERED ON THE ISSUES OF PARTICIPATION AND DISPOSITION OF RESERVES. CHARGE TOOK A HARD LINE ON THESE ISSUES SAYING THAT WE UNDERSTOOD THE PROBLEMS THAT HAD FORCED THE GOJ TO BRING THE COMPANIES TO THE NEGOTIATING TABLE AND HAD NO WISH TO BE INVOLVED. FURTHERMORE, WE FELT THAT THE COMMUNITY OF INTEREST BETWEEN THE GOJ AND THE COMPANIES WAS SUCH THAT A PRAGMATIC AND MUTUALLY BENEFICIAL SOLUTION WAS POSSIBLE PROVIDING BOTH SIDES KEPT THEIR COOL. HE CITED THE OLD ADAGE THAT THE BEST SOLUTION WAS ONE THAT LEFT ALL THE PARTIES ABOUT EQUALLY UNHAPPY. HOWEVER, HE WENT ON TO SAY THAT, IN ANY NEGOTIATION, THERE ARE SOME POINTS ON BOTH SIDES THAT REALLY ARE NON-NEGOTIABLE. CHARGE SAID HE HAD THE FEELING THAT, FROM THE VIEW-POINT OF THE COMPANIES, THE SANCTITY OF THEIR CONTRACTS AND THE FUTURE SECURITY THIS IMPLIED WAS SUCH AN ISSUE. CHARGE EXPLAINED THAT THIS WAS NOT BECAUSE OF EXAGGERATED AFFECTION FOR LEGAL PRINCIPLE, BUT BECAUSE OF THE HEAVY INVESTMENT AND FRONT LOADING CHARACTERISTICS OF THE INDUSTRY AND THE FACT THAT THE INDUSTRY'S CREDITORS COULD RECALL THEIR LOANS SHOULD THE INDUSTRY CONSENT TO A SUBSTANTIAL REVISION OF THE CONTRACTS ADVERSELY AFFECTING ITS CREDITORS' INTERESTS. IN ADDITION CHARGE POINTED OUT THAT OPIC HAD TO APPROVE ANY SUBSTANTIAL CHANGES IN THE CONTRACT, A FACTOR WHICH AUTOMATICALLY INVOLVED THE U.S. GOVERNMENT.

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CHARGE EMPHASIZED THE FACT THAT MOST OF THE COMPANIES HAD INTERESTS IN MANY PARTS OF THE WORLD AND WOULD DO ALMOST ANYTHING RATHER THAN SACRIFICE THEIR ABILITY TO

BORROW IN THE WORLD'S FINANCIAL CENTERS. CHARGE THEN INDICATED THAT HE THOUGHT IT WOULD BE MOST UNWISE OF THE GOJ TO TAKE UNILATERAL ACTION CONSTITUTING MAJOR BREACH IN CONTRACT AND DEPRIVING THE COMPANIES OF ADEQUATE FUTURE SECUTIY TO ASSURE THEIR ABILITY TO REPAY THEIR CREDITORS AND SECURE FUNDING FOR THEIR OPERATIONS HERE AND ELSEWHERE. CHARGE SAID THAT WE UNDERSTOOD JAMAICA'S ASPIRATIONS AND THE FORCES, POLITICAL AND OTHERWISE, CREATING THE NEED FOR SOME LEVEL OF EFFECTIVE PARTICIPATION IN THE INDUSTRY. HOWEVER HE SAID THAT HE HOPED THIS COULD BE DONE BY NEGOTIATION RATHER THAN FIAT, AND THAT A FORMULA MEETING JAMAICA'S BASIC NEEDS WHILE SAVING THE PRINCIPLE OF SANCTITY OF CONTRACT COULD BE HIT UPON.

9. MATALON DID NOT COMMENT IN DETAIL UPON THESE POINTS BUT DID SEEM DEEPLY IMPRESSED BY THEM. HE SAID THAT HE HAD OPPOSED THE VIEWS OF THOSE IN THE GOVERNMENT WHO, AFTER LAST WEEK'S MEETINGS, ARGUED THAT GOJ SHOULD SIMPLY PROCEED ALONG THE LINES OF ITS ORIGINAL PAPER AND THAT HE HAD TOLD THE PRIME MINISTER THAT HE SHOULD NOT RESORT TO LEGISLATION AT THIS TIME. HOWEVER HE COMPLAINED STRONGLY ABOUT THE INTRANSIGENCE OF SOME OF THE COMPANIES AND SAID THAT HE FEARED IT MIGHT BE NECESSARY TO "BUY OUT" REYNOLDS BEFORE THE GAME WAS OVER. HE SAID HE HAD ASSURED HIMSELF OF ADEQUATE FINANCIAL BACKING IN LONDON SHOULD THIS BE NECESSARY.

10. CHARGE THEN SAID THAT, FOR A COMPANY ENGAGED IN MINING, SECURITY OF CONTROL OVER ITS MINERAL RESERVES WAS EVEN MORE IMPORTANT THAN ABSOLUTE CONTROL OVER ITS OWN MANAGEMENT DECISIONS THAT FULL OWNERSHIP PROVIDED. HE OBSERVED THAT, SHOULD A MINING COMPANY LOSE CONTROL OVER ITS RESERVES THIS WAS EVEN MORE SERIOUS THAN LOSING CONTROL OVER ITS VOTING STOCK. THEREFORE THE COMPANIES FELT JUST AS STRONGLY ABOUT THE GOVERNMENT'S PROPOSALS ON THE DISPOSITION OF RESERVES AS IT DID ON THE QUESTION OF FORCED EQUITY PARTICIPATION. HE ADDED THAT THIS

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TOO MIGHT PROVE TO BE AN ISSUE THAT WAS NOT NEGOTIABLE FROM THE INDUSTRY'S VIEWPOINT. MATALON TOOK REFUGE IN THE NOTION OF THE RATIONALIZATION OF THE INDUSTRY, SAYING THAT THE GOVERNMENT'S PROPOSALS WOULD PUT IT INTO A POSITION TO BE HELPFUL TO COMPANIES LIKE REVERE, ALCOA, AND ALCAN BY GIVING THEM BETTER ORE THAN THEY NOW HAD IN SOME CASES. CHARGE ANSWERED THAT THIS MIGHT BE SO BUT, EVEN WITH THE BEST WILL IN THE WORLD, THE GOVERNMENT'S PROPOSALS SACRIFICED THE ESSENTIAL ELEMENT OF SECURITY UPON WHICH THE ENTIRE DEBT STRUCTURE OF THE INDUSTRY RESTED. DISCUSSION ENDED ON AN AMIABLE

NOTE WITH THE MUTUAL PROMISE TO STAY IN TOUCH IN
COMING DAYS. HEWITT

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Message Attributes

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